



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

TOWN & COUNTRY LIFE INSURANCE COMPANY

of

Salt Lake City, Utah

as of

December 31, 2019

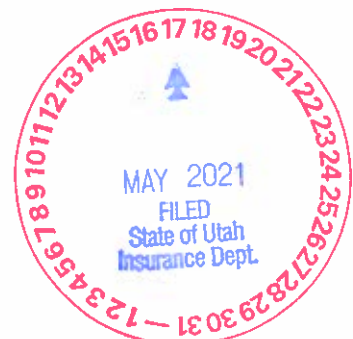


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April 1, 2021

Jonathan T. Pike, Insurance Commissioner
Utah Insurance Department
4315 South 2700 West, Suite 2300
Taylorsville, Utah 84129

Commissioner:

Pursuant to your instructions and in compliance with Utah Code § 31A-2-204, an examination, as of December 31, 2019, has been made of the financial condition and business affairs of:

TOWN & COUNTRY LIFE INSURANCE COMPANY

Salt Lake City, Utah

hereinafter referred to in this report as the “Company,” and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

This full-scope examination of the Company was conducted by representatives of the Utah Insurance Department (Department), and covers the period of January 1, 2016 through December 31, 2019, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The examination is a single-state examination.

Examination Procedures Employed

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Company’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and

evaluating management's compliance with Statutory Accounting Principles. The examination, however, does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report.

This examination report includes significant findings of fact, as mentioned in Utah Code § 31A-2-204 and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other insurance regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

1. The Company entered into and/or amended affiliated agreements and transactions without prior written notification to the Commissioner (Form D) as required by Utah Code § 31A-16-106(1)(b) in relation to the following:
 - a. On November 4, 2016, the Company borrowed \$500,000 from Moreton & Company.
 - b. On January 24, 2018, the Company borrowed \$300,000 from Moreton & Company.
 - c. During the examination period, the Company amended the terms of its Shared Services Agreement with Fred A. Moreton & Company several times.

In addition, the Company did not report any of the affiliated transactions in Schedule Y, Part 2-Summary of Insurer's Transactions with Any Affiliates, as required by the Annual Statement Instructions. This oversight was also noted during the previous examination.

Recommendation:

We recommend the Company notify the Commissioner in writing prior to entering into and/or amending any affiliated agreements and transactions in order to comply with. § 31A-16-106(1)(b)..We further recommend the Company disclose all of its affiliated transanctions in its Schedule Y, Part 2.

2. During the examination period, the Company maintained some of its invested assets with RBC Correspondent Services (RBC) without a proper custodial agreement as required by Utah Admin. Code R590-178.

Recommendation:

We recommend the Company ensure the invested assets are held with proper custodial agreement in accordance with the requirement of Utah Admin.Code R590-178.

On March 19, 2021, the Company notified the Department that invested assets held by RBC would be transferred to US Bank within thirty (30) days. The Company already has a custodial agreement with US Bank, which is in compliance with Utah Admin. Code R590-178.

COMPANY HISTORY

General

The Company was originally incorporated on April 13, 1955 in the State of Texas under the name Town & Country Life Insurance Company of Texas. The Company redomesticated its operations to the State of Utah on April 15, 1986, and was granted a certificate of authority to transact life, and accident and health insurance business. On April 22, 1986, the Company formally changed its name to Town & Country Life Insurance Company. In 2005, the Company was acquired by Fred A. Moreton & Company, doing business as Moreton & Company.

Dividends and Capital Contributions

The Company declared and paid the following ordinary dividends to its parent company, Town & Country Holding Company:

2016	\$87,947
2017	109,934
2018	114,331
2019	<u>201,399</u>
Total:	\$513,611

In 2017, the Company received one capital contribution from the parent company in the amount of \$250,000.

Mergers and Acquisitions

There were no mergers or acquisitions during the examination period.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

Board of Directors

The bylaws of the Company require that the Board of Directors shall be at least three (3) and no more than nine (9). The following persons served on the Board of Directors as of December 31, 2019:

Name and Location	Title and Principal Occupations
William R. Moreton, Chairman Holladay, Utah	President Moreton & Company
William E. Tingey Salt Lake City, Utah	Chief Financial Officer Moreton & Company
Steven R. Hymas Bountiful, Utah	Vice President and Secretary Town & Country Life Insurance Company
Joseph D. Rich Salt Lake City, Utah	Vice President Woodbury Corporation
William E. Stringham Salt Lake City, Utah	Managing Director 42 Ventures, LLC
John T. Crandall Salt Lake City, Utah	Executive Vice President and Manager George K. Baum & Company
Sergio R. Herrera Salt Lake City, Utah	Vice President of Business Development Moreton & Company

See SUBSEQUENT EVENTS section for changes to directors during examination fieldwork.

Committees

Committees and the respective committee members as of December 31, 2019 were as follows:

Audit Committee	Investment Committee	Executive Committee
William R. Moreton, <i>Chair</i>	William R. Moreton, <i>Chair</i>	William R. Moreton, <i>Chair</i>
Joseph D. Rich	Steven R. Hymas	Steven R. Hymas
William E. Tingey	John T. Crandall	William E. Stringham

Officers

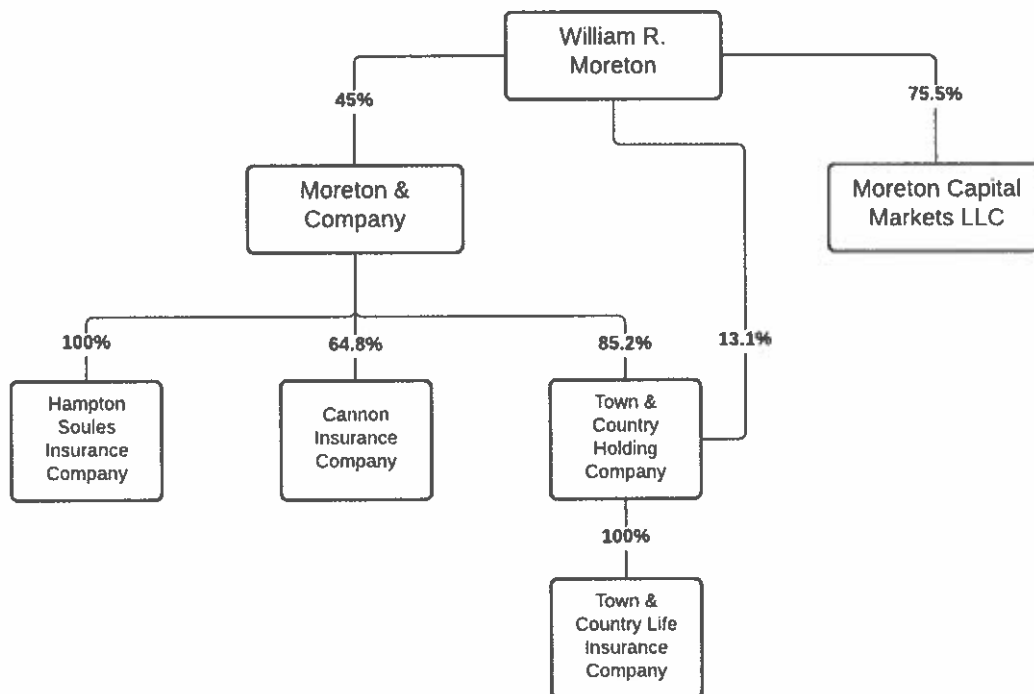
The officers of the Company as of December 31, 2019 were as follows:

Name	Title
William R. Moreton	President
William E. Tingey	Vice President and Treasurer
Steven R. Hymas	Vice President and Secretary

See SUBSEQUENT EVENTS section for changes to officers during examination fieldwork.

Holding Company

The Company is a member of a holding company as defined in Utah Code § 31A-16. The majority shareholder and Ultimate Controlling Party (UCP) of the holding company is Mr. William R. Moreton. The following organizational chart depicts the holding company as of December 31, 2019:



Transactions and Agreements with Affiliates

The following agreements were in place as of the date of this examination report:

Shared Services Agreement

Effective April 1, 2005, the Company entered into a Shared Services Agreement with Fred A. Moreton & Company (Moreton & Company). All of the Company's employee payroll functions and benefit plans are paid and administered by Moreton & Company. Moreton & Company will charge the Company monthly for salary and employee benefit expenses based upon actual and/or estimated employee time spent on the business by those individuals performing services for the Company.

Effective May 1, 2009, the Company entered into a new Shared Services Agreement with Moreton & Company. This Agreement replaced the 2005 agreement. According to the terms of the Agreement, Moreton & Company will undertake the performance of certain administrative

functions, including but not limited to office and secretarial services, accounting oversight, use of office facilities and equipment, health insurance and related employee benefits, liability insurance and other indirect expenses of operations. Salary and employee benefits expenses will be allocated based on actual and/or estimated employee time spent performing services on behalf of the Company.

The terms of the Agreement were amended several times during the examination period.

Loans and Promissory Note

On April 29, 2015, the Company borrowed \$500,000 from Moreton & Company at a 3% interest rate. This loan was properly approved by the Department, and was paid in full on November 1, 2016.

On November 4, 2016, the Company borrowed \$500,000 from Moreton & Company at a 3.5% interest rate. For this loan, the Company did not file a Form D, Prior Notice of Transaction, with the Department. As of November 21, 2017, the Company paid \$200,000 of principal and \$17,356 of interest. On January 24, 2018, the Company paid off the outstanding loan principal and all accrued interest.

On January 24, 2018, the Company borrowed \$300,000 from Moreton & Company with the interest rate of 4.25%. The Company did not file a Form D, Prior Notice of Transaction, with the Department. The principal of the loan and interest of \$9,625 were paid in full as of December 31, 2019.

On June 1, 2019, the Company issued a Promissory Note to Moreton & Company in the amount of \$400,000. The note was paid in full on November 25, 2019.

TERRITORY AND PLAN OF OPERATION

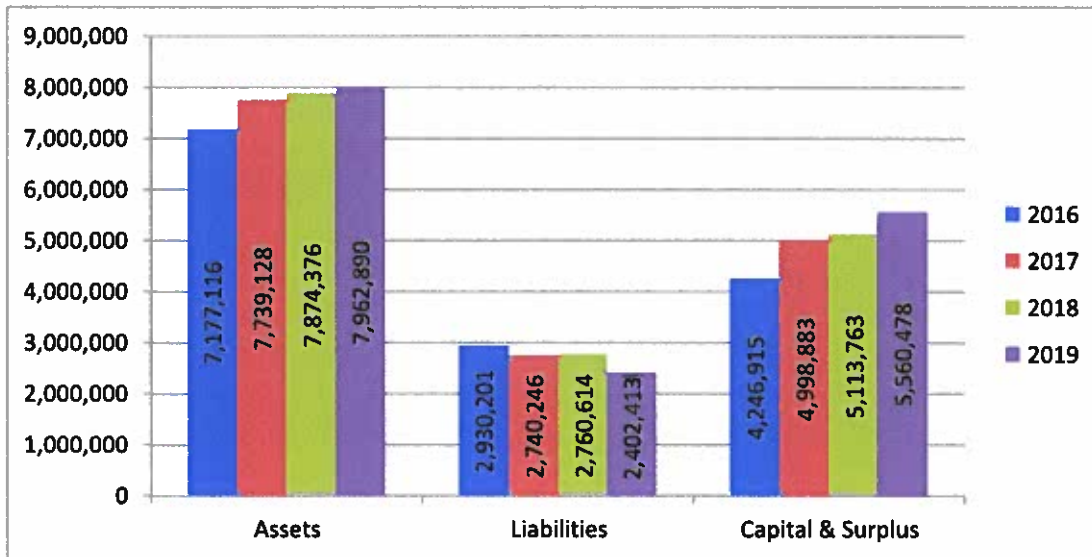
The Company is licensed to conduct business in Arizona, Idaho, Illinois, Oklahoma and Utah, however, the majority of the premiums are in Utah.

The Company currently offers deferred annuities, group dental insurance, group vision insurance, and group short-term disability. The Company markets the group dental and vision products through Total Dental Administrators, Inc., Benefit Administrative Solutions, Inc., and Moreton & Company.

GROWTH OF COMPANY

The Company experienced consistent, positive growth as evidenced by a year over year increase in assets. Capital and surplus increased by approximately 31% during the examination period.

The chart below illustrates the Company's balance sheet trend during the examination period:



REINSURANCE

During the period covered by the examination, the Company did not assume or cede any reinsurance.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Utah Insurance Department and present the financial condition of the Company for the period ending December 31, 2019. The accompanying COMMENTS ON FINANCIAL STATEMENTS (if any) reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

TOWN & COUNTRY LIFE INSURANCE COMPANY
BALANCE SHEET
as of December 31, 2019

ASSETS

	Net Admitted Assets
Bonds	\$ 2,947,742
Preferred stocks	686,819
Common stocks	418,609
Mortgage loans on real estate	2,100,000
Cash, cash equivalents and short-term investments	1,142,326
Other invested assets	599,973
Investment income due and accrued	43,399
Uncollected premiums and agents' balances in the course of collection	24,022
Total Assets	<u>\$ 7,962,890</u>

LIABILITIES AND SURPLUS

	Current Year
Aggregate reserve for life contracts	\$ 1,625,303
Contract claims: Life	350,830
Premiums and annuity considerations for life and accident and health contracts received in advance	68,598
Commissions to agents	24,232
General expenses due or accrued	72,547
Taxes, licenses and fees due or accrued	36,000
Current federal and foreign income taxes	45,059
Net deferred tax liability	14,982
Misc: Asset valuation reserve	164,862
Total Liabilities	<u>2,402,413</u>
Common capital stock	1,000,000
Gross paid-in and contributed surplus	655,450
Unassigned funds	3,905,028
Surplus	4,560,478
Capital & Surplus	<u>5,560,478</u>
Total Liabilities and Capital & Surplus	<u>\$ 7,962,891</u>

TOWN & COUNTRY LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
for the Year Ended December 31, 2019

Premiums and annuity considerations	\$ 4,710,538
Net investment income	183,178
Amortization of Interest Maintenance Reserve (IMR)	1,591
Aggregate write-ins for miscellaneous income	178,180
Total income	<u>5,073,487</u>
 Annuity benefits	 94,136
Disability benefits and benefits under accident and health contracts	3,225,356
Surrender benefits and withdrawals for life contracts	48,181
Payments on supplementary contracts with life contingencies	6,725
Increase in aggregate reserves for life and accident and health contracts	(106,086)
Total benefits and reserves	<u>3,268,312</u>
 Commissions on premiums, annuity considerations and deposit-type contract funds	 286,490
General insurance expenses	898,690
Insurance taxes, licenses and fees, excluding federal income taxes	25,374
Total expenses	<u>1,210,554</u>
Total expenses, benefits and reserves	<u>4,478,866</u>
 Net gain before dividends to policyholders and federal income taxes	 594,621
Net gain after dividends to policyholders, before federal income taxes	594,621
Federal and foreign income taxes incurred	108,605
Net gain after dividends and taxes, before realized capital gains (losses)	486,016
Net realized capital gains (losses)	73,148
Net income	<u><u>\$ 559,164</u></u>

TOWN & COUNTRY LIFE INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
2016 through 2019

	2019	2018	2017	2016
Surplus as regards policyholders, December 31 prior year	\$5,113,763	\$4,998,883	\$4,246,915	\$3,989,247
Net income	559,164	494,297	579,448	297,833
Change in net unrealized capital gains or (losses) less capital gain taxes	17,202	(69,307)	17,108	88,467
Change in net deferred income tax	(38,089)	(33,689)	(57,686)	(51,623)
Change in nonadmitted assets	28,335	(153,142)	58,445	42,947
Change in asset valuation reserve	(5,565)	(13,345)	(20,592)	(32,009)
Paid in Capital	0	0	250,000	0
Dividends to stockholders	(114,331)	(109,934)	(74,755)	(87,947)
Net change in capital and surplus for the year	446,716	114,880	751,968	257,668
Capital and surplus, December 31 current year	<u>\$5,560,478</u>	<u>\$5,113,763</u>	<u>\$4,998,883</u>	<u>\$4,246,915</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Capital and surplus

\$5,560,478

The capital and surplus of the Company was determined to be the same as reported in the Annual Statement as of December 31, 2019. No adjustments were made to surplus as a result of the examination.

COMMENTS ON FINANCIAL STATEMENTS

There are no comments on financial statement items as of December 31, 2019, as a result of the examination.

SUBSEQUENT EVENTS

Subsequent to the examination date, the Company added Kyle S. Hales to the Board of Directors starting with the Annual Statement reporting date as of December 19, 2020. Steven R. Hymas retired on July 3, 2020, and was replaced by Kyle S. Hales as Vice President and Secretary.

ACKNOWLEDGEMENT

Jake Powell, Felix Peysakhovich, ASA, MAAA, and Michael Dubin, FCAS, FSA, MAAA, FCA, of Baker Tilly Virchow Krause, LLP, performed the actuarial review of the examination. David Gordon, MBA, CISA, CIA, CFE (Fraud), CDFE, and Claude B. Granese, CPA, CISA, CITP, CRISC, CGMA, of INS Regulatory Insurance Services, Inc., performed the information systems review. Malis Rasmussen, MSA, CFE, SPIR, Chief Examiner, supervised the examination. In addition, Luze Pierre, MBA, Financial Examiner, participated in the examination representing the Utah Insurance Department. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,

Corey Larsen

Digitally signed by Corey Larsen
DN: cn=Corey Larsen, email=coreylarsen@utah.gov,
ou=Insurance Division, email=coreylarsen@utah.gov,
c=US
Date: 2021.04.27 13:53:51 -0600

Corey Larsen, MBA, AFE
Examiner-in-Charge
Utah Insurance Department